



STEVE WESTLY  
California State Controller

June 25, 2003

Dear Legislators:

We have a tough fiscal challenge before us. We are one week away from the start of the new fiscal year, with no budget in place. As the State's chief financial officer, I want to outline what does and does not get paid if we do not have a budget by July 1.

We have successfully raised \$11 billion through the sale of Revenue Anticipation Warrants. This is the last major influx of cash we will be able to raise without a budget. We were required to use most of those funds to repay \$9.5 billion of outstanding Revenue Anticipation Notes (RAN) that were due on June 20, and an additional \$3.5 billion RAN on June 27. As the Director of Finance noted last week, we are now operating totally on borrowed cash.

Given our limited revenue projections for the next few months, the remaining borrowed resources will only allow me to pay the State's bills into September.

**What Will Be Paid**

In the absence of a budget, I am authorized to make the following types of payments:

- 1. *Prior Year Obligations*** – These payments are for costs incurred in the prior fiscal year. These include vendor payments for services provided before June 30.
- 2. *Constitutional Authorizations*** – These are financial obligations set out in the State Constitution, such as debt service and related interest payments, and revenue limit education payments.
- 3. *Federal Mandates*** – Even without a budget, California must comply with federal law. Therefore, I will continue making such federally mandated payments as Medi-Cal and CalWorks.

**4. Continuous Legislative Appropriations** – I will continue to pay those expenses with ongoing authorization of the Legislature, such as Unclaimed Property Payments and Income Tax Refunds.

**What Will Not Be Paid**

As of July 1, I will no longer make payments that are not legally authorized without a budget, such as payments to thousands of vendors for services provided during the new fiscal year.

There is no legal authority to pay Community Colleges without a budget, and they will receive no new State money until a budget is passed.

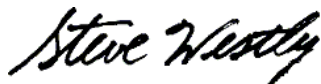
Additionally, I will follow the past precedent of withholding salaries and per diem from state elected officials and their appointed staff until a budget is adopted.

The recent *Jarvis vs. Westly* decision mandated that I stop payments to education that are not specifically authorized. Therefore, education funding will be cut by nearly \$400 million in both July and August. These reductions include child development funding and annual education appropriations.

In *Jarvis vs. Westly*, the Court also ruled that state employees who do not work overtime should be paid minimum wage once it is feasible to do so. That is not fair, but it is now the law. We will continue to pay regular salaries until my department has made and tested the required programming changes. We expect this to be in August or September.

An on-time budget can solve all of these problems. We need to move quickly to avoid these difficulties and to avoid further damaging the State's financial reputation. I hope this information will help you to move toward a compromise budget solution.

Sincerely,

A handwritten signature in black ink that reads "Steve Westly". The signature is written in a cursive, flowing style.

STEVE WESTLY  
California State Controller

